

17.50, Introduction to Comparative Politics (Fall 2006)
Prof. Chappell Lawson
Session 15: Institutions and Growth

Today

- Differences in economic growth
- Traditional explanations for economic growth
 - Factor endowments
 - Factor endowments + luck
 - Culture
- Institutional explanations
 - Property rights and enforcement of contracts
 - Democracy, pro and con
 - Other institutional explanations

Some big differences to explain

- Huge variation out there between rich and poor countries
- Variation over time within most countries, and some evidence of “reversals of fortune” (e.g., Argentina)
- Most famous case: East Asia vs. Latin America during postwar era
- Natural experiments in communism vs. capitalism: Korea and Germany

Non-institutional reasons for economic growth

Factor endowments (land, natural resources, etc.)

- Might explain general levels of poverty across territories (e.g., hunter-gatherers vs. farmers vs. rich societies)
- Might **not** explain change very well
- Size (e.g., China), though not always a cause as rich countries may expand

Culture

Different attitudes toward education, time management, etc.

- As with all cultural arguments, hard to separate those from national identity
- But most famous these days is the issue of interpersonal trust. Why might that matter for economic growth?

Problems with culture and factor endowments

We're focusing on **institutional reasons** for growth.

- Protect private property rights and enforce investments
- What does that mean?
- Why might that be important?

What types of governments protect property rights and enforce contracts

- When will I invest?
- Really matters with respect to the state
- A modern example: Haiti under Francois “Papa Doc” Duvalier
- Intellectual property protection

Is democracy good or bad for property rights? Why?

What checks on government's authority might you imagine?

1. E.g.: When will governments expropriate?
2. Institutions well below level of regime

- “Embedded autonomy” by Peter Evans, comparing countries like Mexico, Brazil, South Korea and Taiwan.
3. Still more:
- Federalism
 - Political regimes
 - Different types of autocracy and relevance for growth
 - Disaster scenario: Communism
 - Let’s get really complicated: different institutions for different stages and types of economies.

What institutions have we NOT talked about? This is just as important!

- Income taxes, property taxes, sales taxes, minimum wage

Background on individual authors

Przeworski and Limongi

- What are main arguments that democracy good? Bad?
- Overall effect of democracy? Little evidence.
- But some evidence that the outcome in dictatorships is more variable

Weingast

- he game is between the sovereign and the producer
- Key is a constraint on expropriation
- Has to do with time horizons as well (See Przeworski and Limongi)
-

Mancur Olson

- How do you pick up the big bills?
- It’s not factor endowments (natural resources, capital)
- It’s not culture (look at migrants)
- It’s institutions
- Which ones? NOT about redistribution or size of government

De Soto

- What is missing?
- What is dead capital?
- Other relevant points
 - Coase Theorem
 - Social irrationality from individual rationality
 - Diminishing returns (show wine and quality); diminishing returns to labor
 - “Wrong sign”: Mancur Olson, population density
 - Some big failures (Argentina)
 - Some big success stories (USA)